

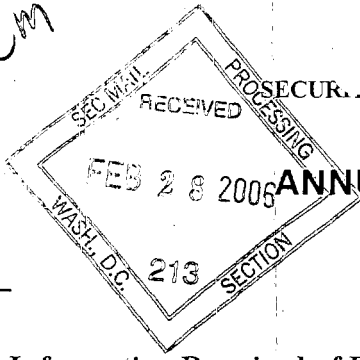
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SEC FILE NUMBER
8- 53221

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: TrueNorth Securities, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

8200 East 32nd Street North

(No. and Street)

Wichita, KS 67226

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

David L. Strohm, Financial and Operations Principal 316-266-6571

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Allen, Gibbs & Houlik, L.C.

(Name - if individual, state last, first, middle name)

301 North Main, Suite 1700 Wichita, KS 67202

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED  
JUL 10 2006  
THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

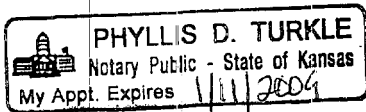
*Handwritten signature/initials*

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# OATH OR AFFIRMATION

I, Margaret E. Hornbeck, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TrueNorth Securities, Inc., as of December 31, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

(n/a)



Phyllis D. Turkle  
Notary Public

M E Hornbeck  
Signature  
President  
Title

State of Kansas )  
County of Sequoyia )

Signed and sworn to (or affirmed) before me on  
2/15/2006 by Margaret E. Hornbeck

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Epic Center • 301 N. Main, Suite 1700  
Wichita, Kansas 67202-4868  
(316) 267-7231 • FAX (316) 267-0339

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL  
CONTROL STRUCTURE REQUIRED BY SEC RULE 17a-5**

The Board of Directors  
**TrueNorth Securities, Inc.**

In planning and performing our audit of the financial statements of TrueNorth Securities, Inc. (Company) for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-(3)(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility

are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC and the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Allen, Gibbs & Houlik, L.L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

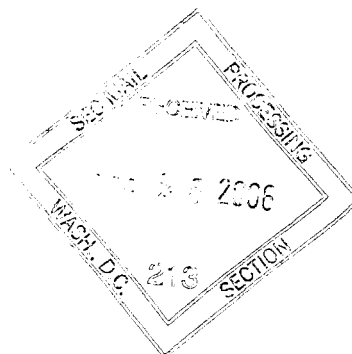
January 31, 2006  
Wichita, Kansas



ALLEN, GIBBS & HOULIK, L.C.

Certified Public Accountants & Consultants

Epic Center • 301 N. Main, Suite 1700  
Wichita, Kansas 67202-4868  
(316) 267-7231 • FAX (316) 267-0339



## ***TRUENORTH SECURITIES, INC.***

(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

### **FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2005 AND 2004**

**WITH**

**INDEPENDENT AUDITORS' REPORT**



***TRUENORTH SECURITIES, INC.***  
(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2005 AND 2004  
WITH  
INDEPENDENT AUDITORS' REPORT

**TRUENORTH SECURITIES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2005 and 2004

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
**TrueNorth Securities, Inc.**

We have audited the statements of financial condition of TrueNorth Securities, Inc. (a wholly-owned subsidiary of TrueNorth, Inc.) as of December 31, 2005 and 2004, and the related statements of operations, stockholder's equity, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TrueNorth Securities, Inc. at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with auditing standards generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Allen, Gibbs & Houlik, L.C.*

January 31, 2006





**TRUENORTH SECURITIES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

**STATEMENTS OF FINANCIAL CONDITION**

December 31, 2005 and 2004

	<u><b>ASSETS</b></u>	<u>2005</u>	<u>2004</u>
Cash	\$ 178,849	\$ 194,313	
Commissions receivable	27,000	27,897	
Prepaid expenses	189	796	
Deferred income tax	1,700	1,700	
	<u>\$ 207,738</u>	<u>\$ 224,706</u>	

	<u><b>LIABILITIES AND STOCKHOLDER'S EQUITY</b></u>		
Accounts payable	\$ 34,271	\$ 28,977	
Accrued expenses	1,352	--	
Income taxes payable, Parent	16,010	25,300	
	<u>51,633</u>	<u>54,277</u>	
Stockholder's equity:			
Common stock, par value \$1 per share; authorized 100,000 shares, issued and outstanding 40,000 shares	40,000	40,000	
Additional paid-in capital	25,000	25,000	
Retained earnings	91,105	105,429	
Total stockholder's equity	<u>156,105</u>	<u>170,429</u>	
	<u>\$ 207,738</u>	<u>\$ 224,706</u>	

The accompanying notes are an integral  
part of these financial statements.

**TRUENORTH SECURITIES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

**STATEMENTS OF OPERATIONS**

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Fee income	\$ 232,020	\$ 192,375
Commission income	<u>49,995</u>	<u>24,516</u>
	<u>282,015</u>	<u>216,891</u>
Expenses:		
Payroll, payroll taxes and benefits	229,041	120,706
General and administrative	<u>76,588</u>	<u>29,589</u>
	<u>305,629</u>	<u>150,295</u>
(Loss) income before income taxes	(23,614)	66,596
Income tax benefit (expense):		
Current	9,290	(25,300)
Deferred	<u>--</u>	<u>(900)</u>
Net (loss) income	<u>\$ (14,324)</u>	<u>\$ 40,396</u>

The accompanying notes are an integral  
part of these financial statements.

**TRUENORTH SECURITIES, INC.**

(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

**STATEMENTS OF STOCKHOLDER'S EQUITY**

Years Ended December 31, 2005 and 2004

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>			
Balance, December 31, 2003	40,000	\$ 40,000	\$ 25,000	\$ 65,033	\$ 130,033
Net income				40,396	40,396
Balance, December 31, 2004	40,000	40,000	25,000	105,429	170,429
Net loss				(14,324)	(14,324)
Balance, December 31, 2005	<u>40,000</u>	<u>\$ 40,000</u>	<u>\$ 25,000</u>	<u>\$ 91,105</u>	<u>\$ 156,105</u>

The accompanying notes are an integral  
part of these financial statements.

**TRUENORTH SECURITIES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net (loss) income	\$ (14,324)	\$ 40,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Commissions receivable	897	(6,069)
Prepaid expenses	607	483
Deferred income tax	--	900
Accounts payable	5,294	6,560
Accrued expenses	1,352	--
Unearned premiums	--	(9,480)
Income taxes payable, Parent	<u>(9,290)</u>	<u>(12,200)</u>
<b>Net cash (used in) provided by operating activities</b>	<u>(15,464)</u>	<u>20,590</u>
<b>(Decrease) increase in cash</b>	<b>(15,464)</b>	<b>20,590</b>
Cash, beginning of year	<u>194,313</u>	<u>173,723</u>
<b>Cash, end of year</b>	<u><b>\$ 178,849</b></u>	<u><b>\$ 194,313</b></u>

The accompanying notes are an integral part of these financial statements.

# TRUENORTH SECURITIES, INC.

(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

## NOTES TO FINANCIAL STATEMENTS

### 1. BUSINESS OPERATIONS

TrueNorth Securities, Inc. (Company) was incorporated in the State of Kansas in 2000 and is a wholly owned subsidiary of TrueNorth, Inc. (Parent). The Company is a limited broker/dealer providing mutual fund and variable products primarily to retirement plans and other retail and corporate customers. The Company is registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). TrueNorth, Inc. provides investment advisory services and is a wholly owned subsidiary of The IMA Financial Group, Inc. The Company operates under the provisions of Paragraph (k)(1) of Rule 15c3-3 of the SEC and, accordingly, is exempt from the remaining provisions of that Rule.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Commissions Receivable - Commissions receivable are amounts due from investment transactions occurring prior to year-end but not received before year-end. No allowance is necessary as all amounts are deemed collectible.

Income Taxes - The Company files consolidated income tax returns with The IMA Financial Group, Inc. and its subsidiaries. Income taxes or benefits are allocated to the Company on the basis of its individual taxable income or loss. This allocation approximates the amounts that would be reported if the Company was separately filing its tax returns. The result of these allocations is reported on the balance sheets under the caption "Income taxes payable, Parent."

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect: (1) the reported amounts of assets and liabilities, (2) disclosures such as contingencies, and (3) the reported amounts of revenues and expenses included in such financial statements. Actual results could differ from those estimates.

(Continued)

# **TRUENORTH SECURITIES, INC.**

(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

### **3. INCOME TAXES**

Deferred tax assets consist of organizational costs as of December 31, 2005. The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2005 and 2004, primarily due to state income taxes and non-deductible expenses.

### **4. RELATED PARTY TRANSACTIONS**

The Company is affiliated through common ownership with The IMA Financial Group, Inc., and its subsidiaries, (Affiliates) which include the Company's Parent, TrueNorth, Inc. As of December 31, 2005, the Company had no full-time employees. The Company shares office space with its Affiliates. Administrative, recordkeeping, operational, and other services necessary to conduct the Company's operations are provided to the Company by its Parent, other Affiliates, or employees of Affiliates. For 2005 and 2004, the Company recorded \$84,328 and \$63,300, respectively, of expenses related to these sharing arrangements. The expense is included with general and administrative expenses on the statement of operations. At December 31, 2005, the Company had an accounts payable balance to TrueNorth, Inc. of \$6,606.

Because the Company is under common ownership and management control with its Affiliates, its operating results and financial position may differ from those that would have been obtained had the Company been autonomous.

### **5. NET CAPITAL REQUIREMENTS**

The Company is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2005, the Company had net capital and net capital requirements of \$155,916 and \$5,000, respectively. The Company's aggregate indebtedness to net capital ratio was .33 to 1. At December 31, 2004, the Company had net capital and net capital requirements of \$169,633 and \$5,000, respectively. The Company's aggregate indebtedness to net capital ratio was .33 to 1.

## SUPPLEMENTARY INFORMATION

TRUENORTH SECURITIES, INC.

(A WHOLLY-OWNED SUBSIDIARY OF TRUENORTH, INC.)

COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 1  
December 31, 2005 and 2004

	2005	2004
Aggregate indebtedness:		
Accounts payable	\$ 34,271	\$ 28,977
Accrued expenses	1,352	--
Income taxes payable, Parent	16,010	25,300
Total aggregate indebtedness	<u>\$ 51,633</u>	<u>\$ 54,277</u>
Net capital:		
Credit items:		
Common stock	\$ 40,000	\$ 40,000
Additional paid-in capital	25,000	25,000
Retained earnings	91,105	105,429
Total credit items	<u>156,105</u>	<u>170,429</u>
Deductions and charges:		
Other deductions	<u>189</u>	<u>796</u>
Total deductions and charges	<u>189</u>	<u>796</u>
Net capital	<u>\$ 155,916</u>	<u>\$ 169,633</u>
Capital requirements:		
Net capital	\$ 155,916	\$ 169,633
Greater of 6-2/3% of aggregate indebtedness or minimum stated net capital for broker-dealer subsidiary (\$5,000)	<u>5,000</u>	<u>5,000</u>
Net capital in excess of requirements	<u>\$ 150,916</u>	<u>\$ 164,633</u>
Ratio of aggregate indebtedness to net capital	<u>\$ .33 to 1</u>	<u>\$ .32 to 1</u>

There were no liabilities subordinated to the claim of general creditors at December 31, 2005 and 2004.

There were no material differences between the Company's computation of net capital and the above computation as of December 31, 2005 and 2004.